Investor Insights and Outlook

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The Joneses are Broke!

Theodore Roosevelt once said that "Comparison is the thief of joy." If this was true in Teddy's day, I can't help but to wonder what he would think of our modern version of "keeping up with the Joneses." It was bad enough when grocery store tabloids and Robin Leach provided occasional looks into the lifestyles of the rich and famous. Today we have 24 hour reality TV networks and Facebook showing a nonstop, touched-up, fantasy version of your closest friends' day-to-day lives. It has gotten easier and easier to fall into the trap of feeling like everyone you know is doing better than you are.

Keeping up with the Joneses in this day and age has measurable effects on society. People who bought houses they could not afford contributed to the housing bubble that peaked less than ten years ago. Every year, more and more people choose to lease expensive luxury cars, or commit to longer and longer auto loans, in order to be seen driving something that may be beyond their true financial means.

If "The Joneses" represent what is typical in American society, we should take a closer look at what that typical means. The most recent Federal Reserve report on the Economic Well-Being of US Households sheds a startling light on what it means to be the average American household. The study found that 47% of respondents could not cover an emergency expense costing $400, or would have to raise the money by selling something or borrowing. Over half of non-retirees in the study with self-directed retirement accounts were either "not confident" or only "slightly confident" in their ability to make the right investment decisions. These examples are only the tip of a disconcerting iceberg.

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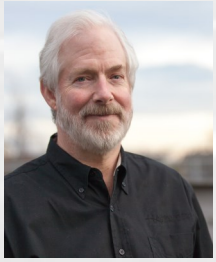

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Health Savings Accounts: Get To Know These Versatile Savings Tools

The number of Americans covered by high-deductible health plans (HDHPs)/health savings accounts (HSAs) rose to about 19.7 million in 2015 – up from 17.4 million in 2014. On average, enrollment in HDHPs/HSAs has risen nearly 22% over the past two years.[1] If you are new to HSAs and eager to take advantage of all the potential benefits they have to offer, keep the following in mind as you familiarize yourself with your account this year.

For Immediate Use. HSAs help to cushion the effect of high upfront medical costs, but in order to take advantage of your account it must be funded. According to industry experts, having an open account is not enough. You must have money in the account – even a few dollars – in order for it to be considered a valid source of tax-advantaged funding. If you wait until a medical bill arrives to fund your HSA for the first time, you may well miss out on its key benefit.

Triple Tax Savings. HSAs are typically offered in conjunction with high-deductible health plans to help offset the burden of out-of-pocket medical expenses that must be incurred before the deductible is met and the insurance policy kicks in. They do this by offering tax savings three ways:

- Contributions made to the account are tax deductible up to certain limits or, if they are made through an employer program, they are made with pretax dollars.
- Any interest or investment earnings accrued on the money in the account is tax free.
- When withdrawals are used for qualifying medical expenses they are tax free.

An Investment Vehicle, Too. Not all HSAs are created equal. Some are simple savings accounts that offer a minimal rate of interest. Others allow you to invest your contributions as you would in a 401(k) or IRA. This potential investment feature, coupled with the fact that HSAs are not a "use it or lose it" vehicle, opens the door to viewing HSAs as another tool in an individual's retirement funding arsenal.

For instance, because money can accumulate in the account indefinitely, it could be earmarked for future health care costs incurred in retirement. What's more, if money in the account is not used by age 65, it can be withdrawn for any reason with no penalty, although taxes will be owed at then-current rates.[2] For those who can afford to contribute money to an HSA and leave it to grow (electing instead to use non-HSA monies to pay for medical costs) an HSA has the potential to be a sound addition to a retirement savings strategy. Contribution limits for 2016 are $3,350 for an individual plan and $6,750 for a family plan. In either case, an extra $1,000 contribution is allowed for those over age 55.

Employer Perks. Akin to the 401(k) match, some employers contribute money to HSAs on behalf of their employees. Find out what your employer's policy is with regard to HSA contributions and whether there is a Wellness Program in place that may offer additional savings incentives.

Shop Around for a Better Plan. If you are enrolled in an HDHP at work, chances are your employer also enrolled you in an HSA. But you need not stick with that HSA if you find another one that better suits your needs. You can essentially "roll over" your HSA assets to another plan by filling out the requisite paperwork and following the rules that are comparable to those governing 401(k) or IRA rollovers – i.e., a direct trustee-to-trustee HSA transfer. Similarly, if you withdraw the money and deposit it in a non-HSA account you will pay regular income tax on the amount plus a 20% additional federal tax.

Source/Disclaimer:

[1]America's Health Insurance Plans (AHIP), "2015 Census of Health Savings Account - High Deductible Health Plans," November 2015.

[2]U.S.News.com, "10 Ways to Maximize Your HSA in 2016," Feb. 4, 2016.

Five Things Baby Boomers Need to Know About RMDs

The times they are a changin' for baby boomers. The generation that lived through and influenced the revolution in the retirement industry is now poised to begin withdrawing money from their retirement-saving vehicles -- namely IRAs and/or employer-sponsored retirement plans.

If you were born in the first half of 1946 -- you are among the first baby boomers who will turn 70½ this year. That's the magic age at which the Internal Revenue Service requires individuals to begin tapping their qualified retirement savings accounts. While first-timers officially have until April 1 of the following year to take their first annual required minimum distribution (RMD), doing so means you'll have to take two distributions in 2017. And that could potentially push you into a higher tax bracket.

This is just one of the tricky details you'll have to navigate as you enter the "distribution" phase of your investing life. Here are five more RMD considerations that you may want to discuss with a qualified tax and/or financial advisor.

1. RMD rules differ depending on the type of account. For all non-Roth IRAs, including traditional IRAs, SEP IRAs, and SIMPLE IRAs, RMDs must be taken by December 31 each year whether you have retired or not. (The exception is the first year, described above.) For defined contribution plans, including 401(k)s and 403(b)s, you can defer taking RMDs if you are still working when you reach age 70½ provided your employer's plan allows you to do so AND you do not own more than 5% of the company that sponsors the plan.
2. You can craft your own withdrawal strategy. If you have more than one of the same type of retirement account -- such as multiple traditional IRAs -- you can either take individual RMDs from each account or aggregate your total account values and withdraw this amount from one account. As long as your total RMD value is withdrawn, you will have satisfied the IRS requirement. Note that the same rule does not apply to defined contribution plans. If you have more than one account, you must calculate separate RMDs for each then withdraw the appropriate amount from each.
3. Taxes are still due upon withdrawal. You will probably face a full or partial tax bite for your IRA distributions, depending on whether your IRA was funded with nondeductible contributions. Note that it is up to you -- not the IRS or the IRA custodian -- to keep a record of which contributions may have been nondeductible. For defined contribution plans, which are generally funded with pretax money, you'll likely be taxed on the entire distribution at your income tax rate. Also note that the amount you are required to withdraw may bump you up into a higher tax bracket.
4. Penalties for noncompliance can be severe. If you fail to take your full RMD by the December 31 deadline on a given year or if you miscalculate the amount of the RMD and withdraw too little, the IRS may assess an excise tax of up to 50% on the amount you should have withdrawn -- and you'll still have to take the distribution. Note that there are certain situations in which the IRS may waive this penalty. For instance, if you were involved in a natural disaster, became seriously ill at the time the RMD was due, or if you received faulty advice from a financial professional or your IRA custodian regarding your RMD, the IRS might be willing to cut you a break.
5. Roth accounts are exempt. If you own a Roth IRA, you don't need to take an RMD. If, however, you own a Roth 401(k) the same RMD rules apply as for non-Roth 401(k)s, the difference being that distributions from the Roth account will be tax free. One way to avoid having to take RMDs from a Roth 401(k) is to roll the balance over into a Roth IRA.

For More Information

Everything you need to know about retirement account RMDs can be found in IRS Publication 590-B, including the life expectancy tables you'll need to figure out your RMD amount. Your financial and tax professionals can also help you determine your RMD.

The Joneses are Broke!

It is easy to fall into the trap of trying to keep up with the Joneses. For many, this leads to living right up to or beyond the ceiling of what their income will allow. A certain "lifestyle inflation" may have taken hold, when your saving habits are shrinking or your debt is growing, just so you can be proud of having the latest version of your smart phone.

I have the privilege of working with some very extraordinary and successful individuals, and time around them has come with a free education of sorts. One important lesson learned is this:

If you do what everyone else does, you can only have the life that every one else has.

Don't be like the nearly half of Americans who can't afford a $400 emergency. Start saving up an emergency fund! Don't be like the nervous half of non-retirees in self-directed retirement accounts. Go get some direction from a professional! Don't live beyond your means. Don't try to keep up with the Joneses. The Joneses are broke!

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